September 24, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Edgar A. Vaughn, Jr., CPA
State Auditor

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FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1998

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 1998

INDEPENDENT AUDITORS' REPORT

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of Francis Marion University (the University) as of June 30, 1998, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 19 to the financial statements, the University changed its method of accounting for cash and cash equivalents in the State's internal investment pool as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

These financial statements exclude the related entity described in Note 14 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Columbia, South Carolina
August 21, 1998

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Francis Marion University (the University) conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) Audits of Colleges and Universities Industry Audit Guide recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard - setting body for GAAP for all State governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The University reports as part of the State's primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) Determine its budget without another government's having the authority to approve and modify that budget.
(2) Levy taxes or set rates or charges without approval by another government.
(3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the University (a primary entity).

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University, located in Florence, South Carolina, is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

The University is governed by a Board of Trustees which is composed of the Governor of the State or his designee, who is an ex officio member of the board, and sixteen members, with fifteen of these members elected by the General Assembly and one member appointed from the State at large by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and expenditures when materials or services are received. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED.)

Fund Accounting (Continued)

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary mission of the University, instruction. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted and restricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

The Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted and restricted current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include Housing, Patriot Bookstore, Dining Services, and Telecommunications operations. Auxiliary enterprise expenditures charged to restricted current funds are for the Federal Work Study program, which is federally funded, and, is therefore subject to federal restrictions.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment Fund* group only includes permanent endowment funds; the University has no term endowment funds or funds functioning as endowments (quasi-endowments). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require the income to be used for specified purposes. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds are established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting (Continued)

The Plant Funds group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities. The University capitalizes major additions to plant assets and qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts for Francis Marion University Foundation, a related party and other organizations and groups directly associated with the University.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to government-sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. This policy also applies to 12-month academic employees while academic employees working less than 12 months are not entitled to accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted and restricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investment in Plant

Physical plant and equipment, except for plant assets acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal, interest and other related costs on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant fund.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as nonstructural improvements and values them at cost.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, these capitalized costs are recorded as transfers of completed construction projects in unexpended plant funds and simultaneously transferred to the investment in plant subgroup and recorded in the appropriate asset accounts. Other capitalizable expenditures (which don't constitute construction in progress) are recorded at cost in unexpended plant funds when the expenditures are incurred and simultaneously capitalized at the value of total expenditures less noncapitalized costs in the appropriate plant fund asset accounts in the investment in plant subgroup in the current year.

Library books, periodicals, microfilms and other library materials are recorded at cost when purchased and fair market value when donated in the library books account.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year; and library additions of books, periodicals and microfilms.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Asset values in the investment in plant subgroup include such interest costs.

Deferred Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for tuition, fees, housing, and meals for the summer and fall academic terms which amounts have not been earned. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the term/semester for which the fees are applicable and earned.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Prepaid Expenditures

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of advance payments for insurance.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as “cash and cash equivalents” represent petty cash, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 13.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the University’s special deposit accounts is posted to the University’s account at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University’s accumulated daily interest receivable to the total income receivable of the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the “excess” earnings to the Federal Government under certain circumstances if they issue no more than $5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the liability is calculated annually. The arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded in the Retirement of Indebtedness subgroup and a reserve fund to liquidate the liability is established.

For fiscal year 1998, the University recorded auxiliary enterprises expenditures of $1,600 for arbitrage costs related to the bonds issued in 1990.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

Comparative Amounts and Totals (Memorandum Only) Columns

Amounts in the “Totals (*Memorandum Only*)” columns of the Balance Sheet and the Statement of Changes in Fund Balances present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all of the information necessary for a fair presentation of financial position and operations in accordance with generally accepted accounting principles.

Income Taxes

The University is a political subdivision of the State of South Carolina and is exempt from federal and state income taxes.

NOTE 2. STATE APPROPRIATIONS:

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The 1998 original appropriation is the University's base budget amount presented in the General Funds columns of Section 18G of Part IA of the 1997-98 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1998:

Original Appropriation	$13,090,752
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits	227,956
Total Quality Management (TQM) Training (Proviso 17A.2)	7,350
Appropriation Allocations from the State Commission on Higher Education:	
From Supplemental Appropriations	184,239
From Capital Reserve Fund Appropriation for Additional Formula Funding	423,925
For Performance Funding (Proviso 18A.27)	93,049
For Access and Equity Desegregation Funding (Proviso 18A.7)	6,016
For Higher Education Awareness Program	1,560
For Palmetto Fellows Scholarships (Proviso 18A.26)	59,836
From the Children's Education Endowment Fund for Need Based Grants	558,229
Revised Appropriations – Legal Basis	14,652,912
Less, Amounts Reported in Restricted Current Funds	(618,065)
Funding Reported in Unrestricted Current Funds	$14,034,847

Proviso 72.44. of the 1998-99 Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent of its original appropriation less any appropriation reductions. However, the University did not carry forward any appropriations pursuant to this proviso.

NOTE 3. CAPITAL IMPROVEMENT BONDS:

In fiscal year 1997, the State authorized funds for an energy facility upgrade using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable."

NOTE 3. CAPITAL IMPROVEMENT BONDS: (CONTINUED)

A summary of the activity in the balances available from these authorizations during the year ended June 30, 1998, follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
111 of 1997	$875,250	$ - 0 -	$532,013	$343,237

NOTE 4. BONDS PAYABLE:

At June 30, 1998, bonds payable consisted of the following liability which is reported in the investment in plant subgroup:

	Interest Rates	Maturity Dates	June 30, 1998 Balance	Fiscal Year 1999 Maturities
Student and Faculty Housing Revenue Bonds, Series 1990	7.00 - 7.25%	1991-2011	$8,200,000	$750,000

In accordance with the bond indenture, revenue received for dormitory and student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing revenue bonds.

The bond documents outline certain covenant terms to secure the bonds. For the revenue bonds, the University must maintain its rates and charges for the use and occupancy of all student housing facilities and dining hall facilities and revenues from the campus development fee and plant fee at amounts necessary to maintain certain specified earning levels. The University must generate net revenues available for debt service of not less than 115% of debt service payments due in each bond year.

The University's debt service reserve requirement at June 30, 1998, for the housing revenue bonds was $820,000 and the balance on deposit was $847,647. A debt service reserve equal to the lesser of 100% of the maximum remaining annual principal and interest payment or 10% of the outstanding bond proceeds is required. The University elected to satisfy the requirements by funding the debt service reserve fund in the amount of $820,000 (10% of outstanding bond proceeds). In addition, deposits during the year must be sufficient to discharge all principal and interest due during the year. Amounts received in excess of the required deposit minimum may be expended at the discretion of University officials.

Beginning April 1, 2000, the housing revenue bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the Board of Trustees. The redemption prices (expressed as a percentage of the principal redeemed) for the revenue bonds range from 2% in 2,000 to par in 2002 and thereafter.

NOTE 4. BONDS PAYABLE: (CONTINUED)

The bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30,1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 750,000	$ 579,563	$ 1,329,563
2000	800,000	527,062	1,327,062
2001	850,000	471,063	1,321,063
2002	925,000	411,562	1,336,562
2003	975,000	346,813	1,321,813
2004 through 2011	3,900,000	1,368,438	5,268,438
Total Obligations	$8,200,000	$3,704,500	$11,904,500

Receipts from a campus development fee and a plant fee designated solely for the purpose of debt retirement are recorded directly in the funds for retirement of indebtedness as student fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The University reported interest expenditures of $616,313 related to the bonds payable for the year ended June 30, 1998. The University retired $700,000 of bonds payable during the fiscal year.

NOTE 5. LEASE OBLIGATIONS AND INSTALLMENT NOTE PAYABLE:

During a prior fiscal year, the University entered into a three year capital lease for computer equipment in the total amount of $64,658. The capital lease is payable in annual installments from retirement of indebtedness funds. The lease agreement requires the University to pay the lessor $9,068 per year to maintain the equipment in good mechanical condition and working order. The interest rate is 5.2%. Capital lease expenditures for fiscal year 1998 was $34,034, consisting of $21,534 for principal, $1,458 interest and $11,042 for executory and other costs. The carrying value of the computer equipment under capital lease at June 30, 1998 is $64,658. The lease provides for a one-year renewal but no purchase option.

During the current fiscal year, the University entered into a five year capital lease for copier equipment in the total amount of $114,629. The capital lease is payable in annual installments from retirement of indebtedness funds. The lease agreement requires the University to pay the lessor $7,800 per year to maintain the equipment in good mechanical condition and working order. The interest rate is 4.3%. Capital lease expenditures for fiscal year 1998 was $883 consisting of $559 for principal, $107 interest and $217 for executory and other costs. The carrying value of the copier equipment under capital lease at June 30, 1998 is $114,629. The lease does not provide for a purchase option.

During the current fiscal year, the University entered into a noncancellable operating lease for several copiers having a lease term of five years. The minimum monthly payment under this lease, including maintenance, is $3,240 per month. Payments totaling $2,764 were made during the current fiscal year.

NOTE 5. LEASE OBLIGATIONS AND INSTALLMENT NOTE PAYABLE: (CONTINUED)

Future commitments for the capital leases and the operating lease are as follows:

Year Ending June 30,	Capital Leases/ Equipment	Operating Lease/ Equipment
1999	$ 73,784	$ 42,120
2000	35,918	38,880
2001	35,918	38,880
2002	35,918	38,880
2003	32,156	32,856
Total minimum lease payments	213,694	$191,616
Less: Interest	(16,807)	
Executory Costs	(60,163)	
Principal Outstanding/Present Value of Net Minimum Payments	$136,724	

The University renewed a real property operating lease with Francis Marion University Foundation, a related party, for office space in downtown Florence, South Carolina from January 1, 1998 through December 31, 1998 for an annual rental of $43,600. The lease agreement contains a renewal option. Under this agreement, the University paid the Foundation $43,600 in the current fiscal year.

The University has certain short-term operating leases for equipment that provide for monthly lease payments and are cancellable without notice. The University is responsible for maintenance of the leased equipment in most cases. In the normal course of business, operating leases are generally renewed or replaced by other leases.

During a prior fiscal year, the University entered into a $200,000 installment purchase agreement with an interest rate of 7%. The installment purchase agreement was paid in full during the fiscal year ended June 30, 1998. Installment purchase agreement expenditures for fiscal year 1998 was $169,122 consisting of $165,307 principal and $3,815 for interest.

NOTE 6. NONMANDATORY TRANSFERS:

Tuition fees and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into general capital improvements funding accounts within the retirement of indebtedness fund. The funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by law. Balances in the general funding accounts are reported in the retirement of indebtedness unrestricted fund balances. $1,729,086 was transferred into the general capital improvements funding accounts during the fiscal year ended June 30, 1998.

As needed, monies are transferred from the general capital improvement account to specific capital improvement projects accounts in the unexpended plant funds. Institutions are authorized to make transfers for specific projects with notification to the State Treasurer. In fiscal year 1998, the University transferred $201,971 from the general capital improvements funding account to the unexpended plant funds subgroup to finance specific capital projects. That transaction is reported as a nonmandatory transfer and the unexpended balances in all such project accounts are reported in the unexpended plant funds restricted fund balances.

The University transferred $2,156,564 from the retirement of indebtedness funds subgroup to unrestricted current funds for operating expenditures of the food services and housing auxiliary enterprises.

NOTE 6. NONMANDATORY TRANSFERS: (CONTINUED)

The University transferred $329,037 from unrestricted current funds to the unexpended plant funds to fund current and future construction projects and $261,931 from unrestricted current funds to the retirement of indebtedness fund for debt service.

The University transferred $154,075 from the unexpended plant fund to the unrestricted current fund for scholarships and $148,931 was transferred from the unexpended plant fund to the retirement of indebtedness fund for the payoff of the installment purchase agreement (see Note 5).

The University transferred $12,225 from loan funds to the restricted current fund for funding supplemental educational opportunity grants to students.

NOTE 7. PENSION PLANS:

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately $950,100, $942,700 and $932,200, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid in the current fiscal year employer group-life insurance contributions of approximately $18,900 at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

NOTE 7. PENSION PLANS: (CONTINUED)

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The University's actual contributions to the PORS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately $31,200, $28,300 and $27,600, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $600 and accidental death insurance contributions of approximately $600 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.916 percent from the employer in fiscal year 1998.

NOTE 7. PENSION PLANS: (CONTINUED)

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $244,700 (excluding the surcharge) from the University as employer, and approximately $194,400 from its employees as plan members. In addition, the University paid approximately $4,900 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

In addition, the University paid the employer's 7.55 share of approximately $3,900 of pension costs for employees on educational leave with the employees paying approximately $3,100.

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. The number of State retirees that meet these eligibility requirements is not available.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately $938,300 for the year ended June 30, 1998. As discussed in Note 7, the University paid approximately $309,000 applicable to the 1.916 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems earnings; however, a portion of the required amount is appropriated form the State General Fund annually for the SCRS and PORS benefits.

NOTE 9. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401 (k) and 403 (b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets to the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 10. INVENTORIES:

Inventories for internal use (postage and fuel) are valued at cost. Bookstore and dining services inventories for resale are valued at the lower of cost or market. A summary of inventories by inventory category, cost determination method and value at June 30, 1998 follows:

Category	Method	Value
Bookstore	Weighted average	$536,048
Dining Services	First-in, first-out	28,471
Postage	First-in, first-out	9,948
Fuel	First-in, first-out	15,075
		$589,542

NOTE 11. STUDENT NOTES RECEIVABLE AND OTHER ACCOUNTS RECEIVABLE:

Receivables in the unrestricted current funds consist primarily of bookstore credit memos and amounts due from students and sponsors of contract courses.

The receivables in the loan funds consist primarily of June collections due from a Third Party Servicing organization.

Allowances for doubtful accounts of $15,900 was established for unrestricted current fund accounts receivable based on credit losses experienced in prior years and evaluations of current portfolios.

With minor exceptions, losses for loans to students are not estimated or recorded in allowances for uncollectible accounts. At the time a loan is considered uncollectible, it is charged to the principal of the fund from which the loan was made. Any account receivable written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed material.

NOTE 12. CONSTRUCTION IN PROGRESS AND COMMITMENTS:

The University has obtained the necessary funding for the construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available to satisfactorily complete the construction of such projects which are expected to be completed over the next year at an estimated total cost of approximately $948,800. Of the total approximate cost, $928,700 was unexpended at June 30, 1998. The University had commitment balances of approximately $511,000 with certain vendors related to these projects.

The capital project at June 30, 1998, which constitutes construction in progress that is to be capitalized when completed is listed below:

Project Number	Project	Total Budgeted Cost	Total Expended Amount
6652	Energy Facility Upgrade	$726,319	$20,110

The University will fund this project out of state capital improvement bond proceeds.

At June 30, 1998, the University had approved and budgeted funds for other capital projects that will not be capitalized when completed at an estimated cost of $122,900. These projects are for renovation to existing facilities and technical support. No costs have been incurred for these projects at June 30, 1998 and there were no outstanding commitments. The University anticipates funding these projects from available funds.

NOTE 13. DEPOSITS:

All deposits of the University are under the control of the State treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$8,050,426	Cash on Hand	$ 34,650
		Deposits Held by State Treasurer	8,015,776
	$8,050,426		$8,050,426

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Cash and cash equivalents reported on the balance sheet include $182,980 in unrealized gain as of June 30, 1998. As disclosed in Note 4, retirement of indebtedness funds include $847,647 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indenture.

NOTE 14. RELATED PARTY:

The Francis Marion University Foundation (the Foundation), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of this organization are to be audited by independent auditors retained by the Foundation. The activities of this organization are not included in the University's financial statements, however, the University's statements do include those transactions between the University and the Foundation.

In conjunction with its implementation of GASB Statement No. 14, the University reviewed its relationship with the Foundation and has excluded this entity from the reporting entity because it is not financially accountable for it. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Foundation may become a component unit of the University and/or part of the financial reporting entity.

Various financial activity occurs between the University and the Foundation. A summary of these transactions and/or balances at June 30, 1998, follows:

a)	Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contract revenue in the restricted current funds.	$158,903
b)	Grants, awards, and cost reimbursements for lectures, retreats, and competitions paid by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contracts revenue in the restricted current funds.	$ 53,655
c)	Personal service payments to professors holding endowed chairs paid by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contracts revenue in restricted current funds.	$ 56,000
d)	University employee time and other costs incurred by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded this amount as a reduction of institutional support expenditures in unrestricted current funds.	$ 27,515
e)	Rent for office space in the Florentine Building incurred by the Foundation on behalf of the University and reimbursed by the University. See Note 5 regarding the operating lease terms. The University recorded this amount in the educational and general expenditure category unrestricted current funds.	$ 43,600

f) The University was obligated to the Foundation for $15,428 for unpaid rent at June 30, 1998. This amount is recorded as accounts payable in the unrestricted current funds.

g) The University held on deposit $15,758 in its agency funds at June 30, 1998 for the Foundation for the purpose of paying Foundation expenses.

h) Premium payments were made from the University's agency fund in excess of reimbursements in the amount of $1,656 for the year ended June 30, 1998 and this amount was due from the Foundation as of year end.

i) Rent for a motor vehicle used by the University's President in the amount of $3,500 was paid by the Foundation. Also, the Foundation is the lessee.

The unaudited financial statements of the Foundation as of and for the year ended June 30, 1998, are presented on the next two pages.

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NOTE 15. TRANSACTIONS WITH STATE ENTITIES:

The University had significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, and telephone and interagency mail services. Significant payments were also made for unemployment and workers' compensation coverage for employees. The amounts of 1997 expenditures applicable to these transactions are not readily available.

The University purchased only nominal amounts of goods and services from other State agencies during fiscal year 1998 except for a payment of $185,028 to the Medical University of South Carolina for a cooperative nursing program which is reported in the instruction expenditure category in the unrestricted current fund.

The University provided no services free of charge to other State agencies during the fiscal year.

As a subrecipient, the University received federal grants from other State agencies, primarily the State Department of Education and also received State funds for providing contract courses from school districts and other entities.

NOTE 16. CONTINGENCIES AND LITIGATION:

The various federal programs administered by the University for fiscal year 1998 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University's management believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimate has not been recorded.

The University is a defendant in litigation arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of the litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the University. The risk of material loss in excess of insurance coverage is unlikely and there is no evidence to indicate that a loss expenditure and liability should be recorded at year-end.

NOTE 17. RISK MANAGEMENT:

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Retirement Systems.)

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following university assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and IRF.

NOTE 17. RISK MANAGEMENT: (CONTINUED)

Insurance Coverage (Continued)

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The fidelity coverage has policy limits and deductibles, some of which vary for regular and peak periods.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories for its unrestricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for real property, its contents and other equipment, business interruption, and tort deductibles for employee fidelity bond coverage to a State or commercial insurer. The University reported expenditures of $1,650 in the current year for actual claims payments related to such retained risks of loss. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1998, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 1998 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, if any are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded; and, therefore, no loss accrual has been recorded.

Self-Insurance

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., collision and comprehensive coverage on certain motor vehicles), it is more economical to manage such risks internally and fund such losses, should they occur, from unrestricted current funds and government disaster assistance.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for claims in the process of review reported in unrestricted current funds and an amount for claims that have been incurred but not reported (IBNR claims) which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors. In management's opinion, losses in excess of coverage are unlikely, and if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998

NOTE 18. FUND BALANCES:

The balances of the unrestricted current funds at June 30, 1998 are as follows:

Educational and general funds	$ 369,604
Auxiliary funds	589,968
	$ 959,572

The balances of the restricted current funds at June 30, 1998 are as follows:

Grants and contracts	$ 42,666
Scholarships and student aid	195,403
Restricted for departments and other specified purposes	106,515
	$ 344,584

The balance of the loan funds at June 30, 1998 are as follows:

U.S. Government grants refundable	$1,553,412
Donor restricted	20,184
	$1,573,596

The balance of $200,000 in the endowment fund at June 30, 1998 is restricted.

The balances of the plant funds at June 30, 1998 are as follows:

Unexpended plant fund:	
Restricted	$1,063,776
Unrestricted - designated	597,505
	$1,662,174
Retirement of Indebtedness fund:	
Restricted	$ 847,647
Unrestricted – designated for capital projects funding	3,556,449
	$4,404,096

NOTE 19. ACCOUNTING CHANGES:

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires that the equity position of each fund that sponsors the pool to be reported as assets in those funds. The University has restated its beginning fund balances as of July 1, 1997 for changes resulting from adoption of Statement No. 31, which are disclosed in the following schedule.

	Fund Balances – June 30, 1997		
	As Previously Reported	Restatement Adjustment	As Restated
Restricted Current Funds	$ 352,940	$ 2,976	$ 355,916
Loan Funds	1,475,587	488	1,476,075
Unexpended Plant Funds	1,793,185	893	1,794,078
Retirement of Indebtedness Funds	4,389,011	18,270	4,407,281

As a result of this accounting change, investment income and endowment income reported includes interest, realized gains (losses) and unrealized gains (losses).

Effective July 1, 1996, the University changed its equipment definition and raised its valuation level from $500 to $5,000 to capitalize those items with a unit value in excess of $5,000 and having an expected life in excess of one year. The fiscal year 1997 memorandum totals included in the statement of changes in fund balances include $4,760,742 under expenditures and other deductions for the removal of capitalized assets on hand July 1, 1997, which did not meet the $5,000 capitalization limit, in the investment in plant funds subgroup. The account title is "Plant asset deletions from change in capitalization policy".

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

In planning and performing our audit of the financial statements of Francis Marion University (the University) for the year ended June 30, 1998, we considered the University's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency which are detailed on page 31. This letter does not affect our report dated August 21, 1998 on the financial statements of the University.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various University personnel and we will be pleased to discuss them in further detail at your convenience.

Columbia, South Carolina
August 21, 1998

FRANCIS MARION UNIVERSITY

MANAGEMENT LETTER COMMENTS
YEAR ENDED JUNE 30, 1998

ACCOUNTS PAYABLE RECORDING DEFICIENCIES

Our audit tests disclosed several expenditures applicable to the fiscal year ended June 30, 1998 that were not recorded in accounts payable as of year end. Adjusting journal entries were required to correctly record the expenditures in accounts payable as of June 30, 1998.

We recommend the accounting staff carefully review vendor invoices paid after June 30 and all unpaid invoices that are on hand even if not approved for payment prior to closing the books as of June 30 each year. Also, requests should be made of department heads to timely submit all invoices being held that are applicable to expenditures for the accounting period ended June 30 for review.

A similar finding was including in our report for the prior fiscal year.

ALLOCATION OF INVESTMENT INCOME IN AGENCY FUNDS

The University holds funds for various entities in its agency funds. These funds are invested and earn investment interest throughout the year. For fiscal year 1998, investment interest was allocated only to the Alumni Fund.

Also, the Agency Fund included an account entitled "Investment Interest" with a balance of $16,387 at June 30, 1998. This account represents unallocated investment income that has accumulated over several years.

We recommend that investment income be allocated on an equitable basis to the various entities that have funds on deposit during the year in the agency funds and that a determination be made for the disposition of the unallocated Investment Income account.

A similar finding was included in our report for the prior fiscal year.

EXPENDITURES FOR TANGIBLE GOODS

Our audit tests of expenditures for tangible goods disclosed that the University personnel in the receiving department, in the various departments that receive goods directly and in the accounting department were not retaining shipping advices as part of the Institution's permanent records. We were advised these documents were being destroyed. Good accounting records include shipping documents which are generally signed by the shipper or vendor representative and the receiver of goods in the receiving area or other designated areas for deliveries.

We recommend consideration be given to modifying procedures to make these documents a part of each account payable package along with purchase orders and invoices prior to payment.

STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Management Letter Comments section of our report on the University for the fiscal year ended June 30, 1997 and dated September 4, 1997. We determined the University has taken adequate corrective action on the findings except for two similar findings that are included in our report for the year ended June 30, 1998.

MANAGEMENT RESPONSE

APPENDIX A

FRANCIS MARION UNIVERSITY

October 2, 1998

Mr. Robert Rogers
Roger & Laban, PA
PO Box 124
Columbia, South Carolina 29202

RE: State Auditor's Report – June 30, 1998

Dear Mr. Rogers,

Dr. Lee A. Vickers, President of Francis Marion University, has requested that I respond to the matters discussed in the above referenced audit report.

We are indeed appreciative of the opportunity you have afforded the University to submit a written response.

The audit report enumerates several opportunities for strengthening internal controls. Below, the University would offer its comments/observations relating of the items noted:

1. ACCOUNTS PAYABLE

At year end the importance of providing timely information to internal users necessitates closing annual records quickly. Management needs to have relevant data available promptly for decision making. In order to supply information within a reasonable time frame, estimates are used when invoices are not available and the general ledger may be closed prior to the submission of all pertinent payable information.

The accounting staff will carefully review vendor invoices paid after June 30, and continue to request that department heads submit in a timely manner all documents applicable to expenditures for the accounting period ended June 30.

If the sum of inaccurate estimates of payable and unsubmitted invoices exceeds a material amount, post closing adjusting journal entries will be made for the audited financial statements.

2. ALLOCATION OF INVESTMENT INCOME TO AGENCY FUNDS

Agency funds are moneys held for safekeeping on behalf of third parties. These funds may be used or withdrawn by the depositor at will. The institution has no obligation to pay interest of these accounts, but has historically paid interest to the Alumni Association. In past years, interest accumulated primarily as a result of cash management practices allowed at that time for Stafford Loan Funds. However, current regulations require that first time student loans can not be received by the University until the student has been enrolled for thirty days. This regulation has required Francis Marion, along with other colleges and universities, to advance funds necessary for enrollment to affected students. The new regulation creates a condition in which the Agency Fund group, as a whole, generally has a credit balance in cash and, therefore, has no funds to invest.

The institution will make necessary adjustments to allocate all accumulated investment interest. The University will continue to annually make the decision as to the feasibility of allocating the current rate of earnings to the Alumni Association.

3. EXPENDITURES FOR TANGIBLE GOODS

Processes in the purchasing and receiving area are rapidly undergoing substantial changes because of Statewide initiatives to improve efficiency. Currently a procurement card system is being implemented at Francis Marion University for state authorized purchases less than $1,500. We are additionally reviewing the paperless receiving and negative receiving systems which are being utilized by other agencies within the state.

The many opportunities to improve capability afforded by technology and changing regulations will make obsolete traditional internal control measures. However, as we review and implement new practices, we will utilize this opportunity to strengthen controls where appropriate in the purchasing process.

Sincerely,

N.C. Fredrick
Senior Vice President for Administration and Finance